REPORT OF THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

914.2

IMPROVED QUALITY CONTROL AND MONITORING NEEDED IN THE STATE SUPPLEMENTARY PROGRAM

APRIL 1980

California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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May 8, 1980 914.2

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the Department of Social Services' quality control and monitoring efforts in the State Supplementary Program (SSP).

The report demonstrates that the department has failed to maximize federal fiscal reimbursement for SSP. The department needs to increase the size of the State's subsample of SSP cases and participate in establishing deadlines for submitting its findings to the Social Security Administration (SSA). The report also indicates that the department needs to monitor the Social Security Administration's computation of federal reimbursement proposals. Furthermore, it finds that the department needs to promptly complete its case reviews.

The auditors are William M. Zimmerling, Audit Manager; Steven L. Schutte; Kathleen A. Herdell; Mark A. Lowder; Arthur C. Longmire; and Albert M. Tamayo.

Respectfully submitted,

Floyd Mori

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

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SUMMARY

California's State Supplementary Program provides public assistance benefits to aged, blind, or disabled persons. On January 1, 1974, California entered into a contract with the federal Social Security Administration (SSA). Under this contract, the SSA administers the State Supplementary Program along with the federal Supplemental Security Income Program. This contract includes provisions which make the SSA liable to reimburse the State for certain erroneously spent state funds.

Every six months, the SSA performs a quality assurance review on a sample of payments made to recipients to check the accuracy of eligibility determinations and payment amounts. To verify that the SSA accurately expends State Supplementary Program monies, the Department of Social Services (DSS) then reviews a random subsample of cases selected from the federal sample. The department reports errors not disclosed in the federal review to the SSA, which then evaluates the findings and adjusts the error rate, thus increasing the federal reimbursement.

During our examination of this process, we noted weaknesses which prohibit the department from maximizing the federal reimbursement. Specifically, the department reviews

only a small sample of case payments. By increasing the size of the sample, the DSS could identify more erroneous payments and thus augment the federal reimbursement. We estimate that the State has foregone the opportunity to recover approximately $24.2 million from the Federal Government for erroneous payments for the period July 1975 through March 1979.

Additionally, the department has not participated in establishing deadlines for submitting its findings to the SSA. Instead, the SSA has independently determined these deadlines, often without apprising the DSS of them. Also, even when the department submits findings within established deadlines, the SSA sometimes fails to include them in its calculations.

Aside from these factors, the Department of Social Services' internal processing and review of cases warrants improvement. The DSS should promptly complete its review of subsample cases and submit its findings to the SSA and thus maximize the federal reimbursement.

To alleviate the above problems, we recommend that the Department of Social Services continue to negotiate with the SSA to implement a method of projecting additional errors found by the DSS to determine error rates for the entire sample of cases. Until such negotiations are successful, the department should increase the size of the state quality control review subsample up to the size of the SSA sample. The

department should also more promptly complete case reviews. In addition, the department should negotiate with the SSA to adjust the federal reimbursement to consider all errors not included in prior reimbursement proposals.

During the course of our audit, we discussed our conclusions and recommendations with Department of Social Services staff. In response to our comments and their own concerns, staff have already begun implementing some of our recommendations.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, the Office of the Auditor General examined the Department of Social Services' quality control review of payments made by the federal Social Security Administration in the Supplemental Security Income/State Supplementary Program (SSI/SSP). This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code. This report identifies opportunities for the Department of Social Services to maximize the proposed federal reimbursement resulting from erroneous payments.

Because of the frequent references to certain statistical concepts in this report, we have included a brief list of these terms and their definitions in Appendix A. We recommend that the reader review this list before reading the remainder of the report.

Background

Title XVI of the Social Security Act provides cash grant welfare assistance for aged, blind, or disabled individuals. Under provisions of state and federal law, California supplements the basic federal Supplemental Security Income payment with an additional State Supplementary Program

payment. The joint SSI/SSP payment is intended to cover recipients' basic needs and living expenses. In fiscal year 1979-80, approximately 700,000 California recipients will be paid an estimated $1.1 billion in SSP benefits in addition to $.7 billion in federal SSI benefits.

On January 1, 1974, the federal Social Security Administration (SSA), on behalf of the Department of Health, Education, and Welfare, contracted with the State to administer the joint payment program at no cost to the State. Prior to that time, California county welfare departments administered the cash assistance. The SSA establishes recipient eligibility, determines appropriate grant amounts, and disburses the payments. Every six months, the SSA quality assurance staff samples and reviews the eligibility and payment records of about 1,750 of California's 700,000 recipients to verify the accuracy of both eligibility determination and payment amounts. This quality assurance review is based upon a random sample of cases selected each month. The SSA uses this data to determine error rates for benefits paid under the State Supplementary Program. Under the SSI/SSP contract, the SSA is liable to California for certain erroneously spent SSP funds above specified error rates. The SSA determines its proposed federal reimbursement liability through the error rate calculations.

The state Department of Social Services (DSS) is responsible for monitoring the federal payment operation to determine whether SSP monies are accurately and properly expended. The department's Quality Control Bureau selects a subsample of the federal quality assurance sample each month to determine if the SSA calculated the error rates correctly. When the SSA completes its review, the department's Quality Control Bureau begins its examination by requesting the federal quality assurance case files. The department reviews federal file materials, contacts the beneficiaries, and reconfirms beneficiary resources and income through independent sources. When a state reviewer identifies additional cases in error, the department sends a letter to the SSA outlining the basis for disagreement. The SSA evaluates the cases and, if it agrees with the department's findings, includes the cases in its data base. These additional errors must, however, be submitted by the department and reviewed and approved by the SSA before it closes the data base for that period.

Scope of Review

We reviewed the effectiveness of the department's efforts to maximize federal reimbursement for erroneous payments. Specifically, we compared the department's subsample findings to federal findings and measured the impact of the state review on the federal data used to determine error rates and proposed federal reimbursements. To measure state impact,

we used the SSA's methodology for computing state reimbursement proposals. We interviewed officials of the Social Security Administration and the Department of Social Services and reviewed SSA records to confirm the accuracy of state data and interpretation of SSA policies and practices. To estimate the cost of the state subsample process, we reviewed department cost accounting reports and personnel records. For comparison, we reviewed the sampling and subsampling process used in the Aid to Familes With Dependent Children (AFDC) program. Using AFDC methodology, we performed a regression of the state subsample findings for one six-month review period to evaluate the feasibility and benefits of applying the AFDC regression formula in the SSI/SSP program.

AUDIT RESULTS

THE DEPARTMENT HAS INADEQUATELY SAMPLED CASE PAYMENTS

Since July 1974, the Department of Social Services has examined a small portion of SSP case payments--less than 20 percent of the federal sample. Because the department reviews a small sample, it identifies only a small portion of erroneous payments made. Thus, the sample error rates do not include all errors in the SSA sample and therefore have been understated. We estimate that because of this method of sampling payments the State has failed to recover approximately $24.2 million from the Federal Government for erroneous payments for the period July 1975 through March 1979. By increasing the size of the subsample or by adopting a regression methodology, the DSS could maximize federal reimbursement for erroneous payments.

Effects of Limiting the Subsample Size

The contract between the State and the Social Security Administration states that the SSA shall be liable for certain state-funded supplementary payments which are erroneously paid to individuals above a specified permissible error rate. These errors, however, must be identified and reported by the department in writing and verified by the SSA before the data base for that period is closed.

The SSA develops its error rates from the results of its sample review. These rates are adjusted to include additional errors found in the state subsample. However, no statistical inference is drawn from the state subsample findings and applied to the federal sample or to the entire population of SSP recipients. Thus, the final SSA error rate and the proposed federal reimbursement is limited by the size of the state subsample. Since July 1974, the size of the state subsample has been less than 20 percent of the SSA sample. Because additional errors found in the state subsample are representative of additional errors in the entire federal sample, the department has found only about 20 percent of the additional SSP errors.

The department began reviewing subsamples of cases selected from the SSA samples in 1974. Since then, the SSA samples have ranged from 1,555 cases to 1,954 cases for a six-month review period while the department has subsampled either 270 or 360 cases from each SSA sample. Since the department typically reviews from 14 to 19 percent of the SSA sample, it is likely that it has identified less than one-fifth of the additional erroneous payments not found by the SSA.*

* Appendix B shows the relative sizes of the SSA sample and the department subsample for each six-month period from July 1975 through March 1979.

Officials of both the department and the SSA have stated that the additional errors found in the state subsample indicate that additional errors can be found in the remaining portion of the SSA sample.

In every review period since 1975, the department has identified errors in its subsample in addition to those identified by the SSA. In each period, the identification of these additional errors has resulted in increases to the proposed federal reimbursement. The department's quality control staff has, through its discovery of additional errors, increased reimbursement proposals by over $1.6 million for the period from July 1975 through March 1979.*

The contract between the SSA and the department does not limit the size of the department subsample. Thus, the department's quality control staff could review up to 100 percent of the SSA sample cases. Had the department examined 100 percent of the SSA sample, we estimate that an additional $24.2 million of federal reimbursement would have been proposed for the period from July 1975 through March 1979. Table 1 shows the existing and estimated reimbursement proposals based on projections of all accepted errors found during the DSS' quality control review of the subsample cases.

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* As shown in Appendix C, the department's quality control review has resulted in increased reimbursement proposals of up to approximately 27 percent of the existing proposals.

TABLE 1

ESTIMATED REIMBURSEMENT PROPOSALS
FOR A 100 PERCENT SUBSAMPLE
JULY 1975 - MARCH 1979

Review Period	Existing	Estimated	Increase
July - December 1975	$11,226,734	$15,536,435	$ 4,309,701
January - June 1976	8,461,837	10,781,668	2,319,831
July - September 1976	3,420,365	6,408,721	2,988,356
October 1976 - March 1977	6,089,429	11,149,207	5,059,778
April - September 1977	738,136	2,680,282	1,942,146
October 1977 - March 1978	1,792,271	4,920,296	3,128,025
April - September 1978	341,113	1,293,872	952,759
October 1978 - March 1979	484,285	3,994,554	3,510,269
Total	$32,554,170	$56,765,035	$24,210,865

Costs of Increasing the Subsample Size

Departmental staff stated that they have not increased the size of the subsample because of limited staff resources. Based on DSS estimated staffing needs and actual cost information for recent years, we estimated what the additional staff costs would have been for a 100 percent subsample for all review periods. We projected that the additional cost to the department to subsample 100 percent of the SSA sample cases for the period from July 1975 through March 1979 would have been about $900,000. Yet, the projected proposed federal reimbursement for that period would have been

increased by over $24.2 million. Thus, the federal reimbursement would have exceeded the cost of additional staff necessary to conduct the review about 27 times over. Table 2, which follows, shows estimated proposed reimbursements for all periods for a 100 percent subsample.

TABLE 2

ESTIMATED INCREASES IN STAFFING COSTS
AND PROPOSED FEDERAL REIMBURSEMENT
HAD THE DSS CONDUCTED A
100 PERCENT SUBSAMPLE REVIEW

Review Period	Estimated Increased Staff Costs	Estimated Increased Federal Reimbursement	Estimated Net Increased Federal Reimbursement
July - December 1975	$ 121,290	$ 4,309,701	$ 4,188,411
January - June 1976	114,364	2,319,831	2,205,467
July - September 1976	21,027	2,988,356	2,967,329
October 1976 - March 1977	134,389	5,059,778	4,925,389
April - September 1977	126,535	1,942,146	1,815,611
October 1977 - March 1978	126,714	3,128,025	3,001,311
April - September 1978	127,755	952,759	825,004
October 1978 - March 1979	130,358	3,510,269	3,379,911
Total	$902,432	$24,210,865	$23,308,433

Benefits of Adopting a Regression Formula

The DSS could use a regression formula to estimate error rates by statistically comparing the results of the state subsample with the results of the federal sample. Application of such a formula to determine SSP error rates would give greater weight to the additional errors found during the department's review and would produce higher, more accurate error rates than those currently developed from SSA sample results. Additionally, application of a regression formula would be less costly than a review of the entire federal sample.

The DSS has modeled the size of the subsample for SSP after the size of the SSA subsample used to verify the state-calculated error rate for the Aid to Familes With Dependent Children (AFDC) program. However, the SSA uses a different methodology to determine the error rates for SSI/SSP than it uses for AFDC. In the AFDC program, the DSS has responsibility for supervising counties' administration of state and federal funds. To determine AFDC error rates, the department reviews the original AFDC sample, then the SSA conducts a subsample review to identify additional errors. State error rates are then determined by applying a regression methodology to the state and federal samples.

DSS has proposed using a regression methodology to develop SSP error rates but the SSA has not agreed with the proposals. The SSA has been hesitant to use a regression methodology, claiming it may not be feasible for all states which have opted for federal administration of SSP-type payments.

We performed a regression of the error rates for the period from April through September 1978 using the AFDC regression formula and determined that proposed federal reimbursement to the State would be 4.8 times greater than currently proposed for that period. The existing proposed federal reimbursement for this period is $341,113. Using regression methodology, we estimated that the reimbursement should have totaled $1,650,716.

Furthermore, DSS estimated the state administrative cost to administer the regression methodology. In addition to the current cost of subsample review, the one-time cost for developing the necessary computer programs would total approximately $12,000 and maintenance costs for each subsequent review period would equal less than $2,000.

CONCLUSION

The Department of Social Services identifies only a small portion of erroneous State Supplementary Program payments made because it reviews a limited subsample of cases. As a result, error rates and the proposed federal reimbursement have been understated.

RECOMMENDATION

To ensure that the error rates and federal reimbursement include all erroneous payments, the Department of Social Services should implement these suggestions:

- Continue to negotiate with the Social Security Administration for implementation of a regression methodology similar to that used in the AFDC program for determining error rates;

- Until such negotiations are successful, perform up to a 100 percent review of the SSA sample.

THE DEPARTMENT HAS NOT ENSURED THAT ERRORS FOUND BY THE DSS ARE INCLUDED IN FEDERAL COMPUTATIONS

The SSA establishes timeframes for conducting the SSP sample reviews. Although the Department of Social Services and SSA have discussed problems encountered with SSA's timeframes, the department has failed to influence SSA's deadlines for the submission of additional payment errors. This occurred even though the SSI/SSP contract provides for cooperation between the SSA and the DSS in establishing review timeframes. Moreover, the DSS is often not informed of these deadlines until near the end of the review period. Because of these problems, errors found by the DSS have been omitted from federal calculations. Even in instances where the department meets SSA deadlines and policy requirements, the SSA has failed to include certain additional errors in its computations. These problems have caused error rates and proposed federal reimbursements to be understated.

The SSI/SSP contract provides for cooperation between the department and the SSA in establishing review timeframes. The contract reads in part that

> The State may perform a quality assurance review on a sample of cases selected by the State from the SSI quality assurance sample provided that such review is coordinated and conducted simultaneously or concurrently with the quality assurance review of the same cases performed by the Secretary. The Secretary and the State shall cooperate in arriving at the time for conducting their respective samples.

The SSA does not include additional errors submitted by the department in the error rate computation if these additional errors are not reviewed and agreed upon before the data base for that period is closed. The department, however, is often not informed of the closure dates until near the end of the review period. From July 1975 through March 1979, state quality control staff found 61 payment errors in its subsample review that were not found by the SSA and that the SSA agreed were errors. The SSA, however, omitted 27 of these errors, or 44 percent, from its error rate calculations because the state findings were not received or agreed to before the cut-off dates. Since the department was not aware of the deadlines when it began reviewing subsample cases, it did not complete its review prior to the cut-off dates. In fact, in certain instances, the SSA did not provide the department with relevant case files until after the data base was closed. If the SSA had included these additional 27 errors in the error rate calculations, the proposed federal reimbursement would have been augmented by $1,521,574.

Although the Quality Control Bureau staff knew that the SSA was omitting state findings from error rate calculations because of its deadlines, the manager of the DSS Adult Program Bureau was unaware of this problem prior to our audit. The manager stated that SSA officials had assured the department that all errors reported by the DSS were being counted. DSS Quality Control Bureau managers have stated

that in the future they would be willing to routinely inform program managers about similar problems in their periodic report on subsample error findings.

Need for Monitoring
Federal Calculations

In addition, there is a need for the DSS to closely monitor the federal calculations. Even in instances where the DSS meets SSA deadlines and policy requirements, the SSA has failed to include in its computation of error rates certain errors found by the DSS. Because the department does not monitor the data base changes or federal calculations, there is no control to ensure that all errors detected by the DSS are reflected in the final error rates.

Since July 1975, the SSA has omitted from its statistics 11 of the 34 cases (32 percent) which it had agreed to and which fell within data base deadlines. Consequently, the proposed federal reimbursement has been understated by approximately $1.2 million. Table 3 reflects the impact of excluding these cases from the federal data base.

TABLE 3

POTENTIAL FEDERAL REIMBURSEMENT FROM ERRORS
OMITTED FROM ERROR RATE COMPUTATIONS

Review Period	Proposed Federal Reimbursement	Potential Federal Reimbursement Not Proposed	Percentage of Federal Reimbursement Omitted
July - December 1975	$11,226,734	$ 290,051	2.6%
January - June 1976	8,461,837	137,376	1.6
July - September 1976	3,420,365	266,874	7.8
October 1976 - March 1977	6,089,429	515,080	8.5
April - September 1977	738,136	3,240	.4
October 1977 - March 1978	1,792,271	0	0
April - September 1978	341,113	0	0
October 1978 - March 1979	484,285	5,154	1.1
Total	$32,554,170	$1,217,775	3.7%

These erroneous cases were not reflected in the data base because of SSA internal processing errors. An SSA official stated that the federal agency did not have an adequate internal control system to ensure that all errors which are accepted are included in the data base.

The Department of Social Services does not have a formal system for monitoring changes in the federal data base or the SSA's development of error rates. The department had never requested a copy of the final data base to ensure that

errors found by the DSS were included in the final calculation. A department quality control staff manager stated, however, that a tracking system could be implemented with existing staff resources to monitor the SSA's processing of errors found by the DSS so that these are included in the data base.

During our review, the DSS quality control staff tested a tracking system for one month to monitor the SSA's actions to include in the data base additional errors found by the DSS. They found that one out of the four errors found by the State in that month was incorrectly recorded on the data base. Had the department not monitored this month's data base adjustments, error rates for the period would have been lower. By implementing a system to routinely monitor the SSA's calculation of the data base, the DSS could decrease the number of errors that SSA omits from the data base and thereby increase the accuracy of the proposed federal reimbursement.

CONCLUSION

The Department of Social Services has not influenced SSA's independently established deadlines for the department's submission of additional errors. Often, the DSS is not apprised of these deadlines until near the end of the review period and, therefore, does not complete its review within them. In addition, the department does not monitor error rates and proposed federal reimbursement calculations to ensure that all

additional agreed upon errors are included. A tracking system could be implemented with existing staff resources to monitor SSA entries to the data base. Participating in establishing review deadlines and reviewing the SSA data base entries would increase the likelihood that additional errors found by the DSS would be accurately reflected in proposed federal reimbursement calculations.

RECOMMENDATION

The Department of Social Services should negotiate sample and subsample review timeframes with the SSA. Both the SSA and the department should establish review dates before the federal sampling effort begins. In setting these deadlines, both agencies should consider the availability of case information and review results. Furthermore, the department should negotiate with the SSA to ensure that additional errors excluded from previous periods are included in current error rates and federal reimbursement proposals.

To ensure that all agreed upon errors are included in the error rate calculations, the department should

- Establish a formal tracking system to monitor SSA data base entries;
- Notify the SSA of any discrepancies prior to calculation of federal reimbursement proposals;
- Negotiate with the SSA to revise understated prior error rates and increase federal reimbursement proposals by including those additional errors.

THE DEPARTMENT HAS NOT PROMPTLY COMPLETED CASE REVIEWS

Although the factors previously detailed affect the inclusion of errors in the federal calculations, the department's internal administrative processing also warrants improvement. Specifically, the department's review of subsample cases is not always promptly completed. We identified a number of cases with payment errors that were excessively delayed in the DSS case review processing and, consequently, were not included in the federal reimbursement calculations. During our review, however, the department adopted certain corrective measures that should improve the timeliness of future case reviews.

During our examination of the quality assurance review periods since 1975, we noted several case files that were inactive for long periods in the state review process. For example, we found intervals of two to three months between the date a case was ready for state review and the date the state review began. We also noted time lapses of one to two months between the date a case was completed and the date the department notified the SSA of a disagreement. Because of these delays, errors found by the DSS were not included in the computation of error rates. Therefore, proposed federal reimbursement statistics were understated.

Quality Control Bureau staff stated that there were several reasons for the delays. The SSA did not always make cases available to state reviewers immediately upon request. We noted, however, that the DSS had no system to monitor or document this problem to resolve the matter with the SSA. Additionally, supervisors had no system for monitoring cases in the field. Further, case processing time goals and deadlines were not formally established and expeditious processing was not impressed upon staff. We found that the SSA has a 45-day processing standard that Quality Control Bureau managers feel could be applicable to the state process.

Additional reasons for delays involved staff assignment and workload distribution. Field staff were occasionally reassigned to other work activities; thus, work backlogs developed. We noted that SSI/SSP program managers were not involved in these staff reassignment decisions. Also, the method for assigning cases to field staff sometimes resulted in an uneven distribution of workload.

During our audit, Quality Control Bureau management implemented a number of corrective measures to control the timeliness of case reviews. Field reviewers are now instructed to complete cases within 45 days. Cases are centrally assigned to field reviewers by the Quality Control Bureau office. This office has also implemented a system to monitor the status of

cases in process. Field reviewers have been instructed to record the date the SSA makes cases available. Field reviewers have been further instructed to request cases as soon as the SSA completes its review.

CONCLUSION

The Department of Social Services has not always reviewed cases and reported review results to the SSA in a timely manner. As a result, erroneous payments have been omitted from federal error rate statistics and proposed federal reimbursement for erroneous payments has not been maximized. During our review, however, the department adopted a number of corrective measures that should improve case processing in the future.

RECOMMENDATION

To ensure that quality control case reviews and findings are completed in a timely fashion, the department should continue its corrective measures

and should consider the impact on case review completions of reassigning quality control field staff to other departmental units.

Respectfully submitted,

Kurt R. Sjoberg

for THOMAS W. HAYES
Auditor General

Date: April 25, 1980

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STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

EDMUND G. BROWN, JR., Governor

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April 24, 1980

Mr. Thomas W. Hayes, Auditor General
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Dear Mr. Hayes:

We have carefully reviewed your draft report, "Improved Quality Control and Monitoring Needed in the State Supplementary Program" and discussed it with your staff in an exit conference on April 22, 1980. I understand that a number of our comments and concerns about the presentation of the findings are being accommodated in the final report.

My major problem with the report is its criticism of the Department for failure to adequately monitor and influence change in the federal process for determining federal fiscal liability (FFL) to the state for the erroneous expenditure of state money. With regard to this criticism, I find the report is seriously deficient in describing the Department's management activities already underway prior to the audit, or its accomplishments. In addition, it does not recognize the reality of the contractual arrangement that exists between states and the federal government in this program and the difficulties encountered by all states in negotiating contractual changes with the federal government. My comments, therefore, are intended to correct any impression that the Department did not recognize the problems described in the report, or was not taking action to resolve them. In addition, I would like to provide information on the status of a number of actions related to your final recommendations.

In any discussion of problems in the administration of the Supplemental Security Income/State Supplementary Program (SSI/SSP), it is important to understand somewhat the history of the federal/state relationship. The conversion, as mandated by federal law, from the state/county administered programs for the aged, blind and disabled program to the federally administered SSI/SSP program and the state's contract for federal administration of the state supplement brought about an unprecedented reversal of the traditional roles of the state and federal government in the welfare system. All other programs have been grant-in-aid programs, wherein the federal government is in the position of monitoring state performance rather than, as in the case of the SSI/SSP program,

the state monitoring federal performance. In this new arrangement, states found that it was extremely difficult for the parties to "mutually" agree on all proposed contractual changes. During the period in question (July 1975 through March 1979) state expenditures administered by the federal government in this program were in excess of $3.2 billion. The amount of federal fiscal liability the Auditor General considers at question is $24.2 million, three-fourths of one percent of the total.

During the early years of the program, the state efforts with regard to the fiscal liability issue were by necessity focused on establishing the basic concept of FFL in the state/federal agreement. In 1976 contract negotiations, the federal government took the position that there would be no FFL in the SSI/SSP program on the basis that comparable provisions in the Aid to Families with Dependent Children (AFDC) program had been struck down in the Court. It was only after lengthy debate and the withholding of state monies that the federal government agreed to the FFL provisions that exist in the contract today. Immediately after the concept of FFL was established in the contract, the Department embarked on a joint effort with six other states to examine the system for determining FFL and negotiate needed changes in that system. In March of 1978, the states presented to the Social Security Administration (SSA) their specifications for that system along with numerous technical changes required in the federal quality assurance (QA) process. Included was the state position regarding the need for a regression formula and mutually agreed upon timeframes for completion of the review and closure of the data base. While these negotiations have taken much longer than we anticipated, they are now nearing completion and we are optimistic that we will soon have contract language in support of the state position. The Director of this Department has been in personal contact with the Commissioner of the Social Security Administration to ensure that these issues are resolved.

Looking back, it can be argued that a 100% review should have been implemented in the early years of the program. However, it is important to understand that from our perspective there was no guarantee on FFL in the program until November of 1976. After that point, there was no information that 100% review would be cost-beneficial, and we and other states believed that success in our negotiations on regression was imminent. The audit report has been helpful to us in documenting that cost-benefit of 100% review, and we are currently in the process of implementing your recommendation that we review the entire federal QA sample. The additional quality control staff necessary to accomplish this task have been requested, and we will perform a 100% sample review beginning with the next quality control review period if we are not successful in obtaining a regression formula by that time.

As the report recognizes, the Department had already begun implementing the recommendations related to ensuring that errors are included in the data base and prompt completion of state reviews. We have now completely implemented: (1) a mechanism to track each agreed-upon error to ensure inclusion in the federal base, (2) new case assignment and case monitoring procedures, and (3) formal case processing goals and deadlines to ensure timely completion of our review. Further, I am preparing a letter to William Driver, Commissioner of the Social Security Administration, requesting that SSA remedy their failure to include all appropriate state review findings in the federal data base and to make the resultant adjustments in their calculations of FFL settlements to ensure that the state receives the correct reimbursement for each fiscal period.

Thank you for the opportunity to share our comments and concerns regarding this report. I believe that it will prove to be a useful source document not only for our current negotiations with SSA, but also for our ongoing efforts to improve SSI/SSP program monitoring.

Sincerely,

ROBERT ROWLEY
Chief Deputy Director

GLOSSARY OF STATISTICAL TERMS

Data Base: The SSA computer storage system that maintains the results of the SSA sample and case reviews. The SSA uses findings listed in the data base to calculate error rates.

Error Rates: The estimates of the rate of erroneous SSP payments made to recipients by the SSA. Error rates are calculated from results of the SSA sample and the department subsample review results. These error rates are used to calculate federal reimbursement proposals.

Federal Reimbursement Proposals: The amount of fiscal liability that the SSA has proposed to the DSS for erroneously spent SSP funds.

Regression Methodology: A statistical tool used to establish relationships which make it possible to predict the average value of a variable in terms of the known value of another variable.

Sample: A random sample of SSP case payments selected monthly and reviewed by SSA in six-month intervals. The objective is to measure the accuracy of the SSA's determination of both recipient eligibility and payment amounts.

Subsample: Random review by the DSS staff of a portion of the SSA sample cases. The objective is to test the accuracy of the SSA's payments made on behalf of the State.

FEDERAL SAMPLE SIZE AND STATE SUBSAMPLE SIZE

Review Period	Federal SSA Sample Size	State DSS Subsample Size	State DSS Subsample as a Percentage of the Federal SSA Sample
July - December 1974	1,868	341	18.3%
January - June 1975	1,954	342	17.5
July - December 1975	1,926	360	18.7
January - June 1976	1,932	270	14.0
July - September 1976	1,643	270	16.4
October 1976 - March 1977	1,628	270	16.6
April - September 1977	1,708	270	15.8
October 1977 - March 1978	1,555	270	17.4
April - September 1978	1,650	270	16.4
October 1978 - March 1979	1,627	270	16.6
Total	17,491	2,933	16.8%

ESTIMATED ADDITIONAL PROPOSED REIMBURSEMENT
FROM DEPARTMENT OF SOCIAL SERVICES' REVIEW

Review Period	Estimated Original Federal Reimbursement	Estimated Additional Reimbursement Proposed From State Review	Existing Federal SSA Reimbursement Proposal	Percentage Increase Due to DSS Review
July - December 1975	$11,007,354	$ 219,380	$11,226,734	2.0%
January - June 1976	8,271,650	190,187	8,461,837	2.3
July - September 1976	3,222,329	198,036	3,420,365	5.8
October 1976 - March 1977	5,653,041	436,388	6,089,429	7.2
April - September 1977	620,273	117,863	738,136	16.0
October 1977 - March 1978	1,493,933	298,338	1,792,271	16.7
April - September 1978	287,515	53,598	341,113	15.7
October 1978 - March 1979	355,596	128,689	484,285	26.6
Total	$30,911,691	$1,642,479	$32,554,170	5.0%

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps